



THE SECRETARY OF EDUCATION  
WASHINGTON, DC 20202

February 1, 2013

The Honorable Barbara A. Mikulski  
Chairwoman  
Committee on Appropriations  
United States Senate  
Washington, DC 20510

Dear Madam Chairwoman:

Thank you for your letter regarding the impact that sequestration would have on the programs and operations of the Department of Education, and, to the extent known, on State and local educational programs. As you know, I share your concern about the negative impact sequestration would have on the education of our nation's children and adults.

Education is the last place to be reducing our investment as the nation continues to climb out of the recent recession and to prepare all of its citizens to meet the challenges created by global economic competitiveness in the 21<sup>st</sup> century. Indeed, I can assure you that our economic competitors are increasing, not decreasing, their investments in education, and we can ill afford to fall behind as a consequence of the indiscriminate, across-the-board cuts that would be required by sequestration.

In answering this letter, our analysis has assumed that sequestration would be subtracted from funds available under a full-year continuing resolution (CR). As you know, the CR that runs through March 27 provides funds at the same level and under the same laws and conditions as the 2012 appropriation.

Sequestration would create significant hardship for America's K-12 schools and postsecondary institutions. In general, the hardship will be concentrated in the 2013-2014 school year, because most Federal education funds for the current school year were provided in the fiscal year 2012 appropriations act. For example, the \$14.5 billion Title I Grants to Local Educational Agencies (LEAs) program and the \$11.6 billion Individuals with Disabilities Education Act Part B Grants to States program are forward-funded, meaning that funding for a given fiscal year becomes available on July 1 of the fiscal year and funds operations in the following school year.

However, there are important exceptions to this general rule, and some key programs would feel the impact of sequestration immediately. For example, the Impact Aid programs are funding activities during the current school year. The recipients of these programs receive a high percentage of their overall funding from the Federal Government. That means sequestration would eliminate roughly \$60 million from the \$1.2 billion in funds for Impact Aid Basic Support Payments for schools that are counting on those funds to meet the essential needs of students and to pay teacher salaries this spring, potentially forcing districts to make wrenching, mid-year adjustments in ongoing programs. Many districts are facing potential elimination of instructional

and noninstructional staff and delaying needed building maintenance for buildings already in serious disrepair.

An example of the fiscal impact on these programs is that the Killeen Independent School District in Texas, which has 23,000 federally connected children, including 18,000 military dependents, would lose an estimated \$2.6 million in Impact Aid funds. Similarly, the Gallup-McKinley County Public Schools in Gallup, New Mexico, would lose nearly \$2 million of the funds the district receives from the Impact Aid program to help meet the educational needs of 7,500 federally connected children, including 6,700 who live on Indian lands. This impact is severe, given that Impact Aid funds make up 35 percent of the district's total education budget.

In the Vocational Rehabilitation State Grants program, funds are used to provide services to individuals with disabilities to help them become employed. The grants fund operations during the current fiscal year, and the Department provides about 80 percent of these operational funds. Thus, sequestration would immediately eliminate approximately \$160 million from funds supporting activities that help these individuals prepare for, obtain, or retain employment. In particular, counselor caseloads would likely increase, as well as wait times for individuals to receive essential vocational rehabilitation services, hurting the effort to lower the unemployment rate for these individuals, which already is significantly higher than that of the general population.

For other Federal education programs that are forward-funded, the fact that the impact of sequestration would not be felt until the 2013-2014 school year would not lessen the negative effects on students, families, and teachers. We know from survey data that about 80 percent of school districts would not be able to make up the losses from sequestration, a finding that should not be surprising given that State and local budgets are only just beginning to recover from the recent financial crisis and economic recession. Any inroads they have made to rebuild or restructure programs as the economy recovers and tax revenues increase would be substantially undermined by a significant loss in Federal education funds.

In particular, sequestration would hit hard at Federal, State, and local efforts to improve educational opportunities for the nation's neediest students and their families. Title I Grants to LEAs serve nearly 23 million students in high-poverty schools and Special Education State Grants help SEAs and LEAs provide a free appropriate public education (FAPE) to roughly 6.5 million special needs students. Sequestration would reduce Title I funding by some \$725 million, potentially eliminating support to an estimated 2,700 schools serving 1.2 million disadvantaged students, while also putting at risk the jobs of approximately 10,000 teachers and aides serving these students. Formula grants to States received under Part B of the Individuals with Disabilities Education Act could be reduced by as much as \$598 million, which would require States and districts to cover the cost of approximately 7,200 teachers, aides, and other staff needed to provide a FAPE for students with disabilities, placing additional burden on cash-strapped States and districts.

To implement these reductions for the coming school year, local districts will be making decisions in April and May about which jobs to cut and which teachers to renew. Districts will have to plan on less funding. Fewer teachers and staff could mean larger class sizes, fewer

courses or subject areas, less tutoring for struggling students, reductions in counseling, and more difficulty in retaining recently hired teachers. And, local economies will suffer from the higher unemployment or uncertainty of the staff.

The law specifically exempts the Pell Grant program from sequestration. The law also has a special rule on student loans that specifies a small increase in the origination fee for loans made after the sequester order. This origination fee change would require adjustments in systems and records for those getting loans later in school year 2012-2013 and early in school year 2013-2014.

Cutting administrative funds for Student Aid programs will affect the servicing of student loans serviced by Not-For-Profit (NFP) loan servicers. Sequestration could require each NFP servicer payment to be reduced. The impact of reducing payments to student loan servicers would be significant and could adversely impact as many as 29 million student loan borrowers. NFPs may have to lay off or furlough many of their contract employees in States such as Pennsylvania, Wisconsin, Missouri, Tennessee, Iowa, and Utah. Some smaller NFPs may run operational risks and even be forced to close, disrupting service and potentially causing issues with payment processing for all student and parent borrowers they service.

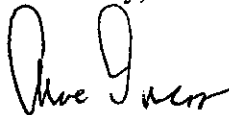
In addition, the Department's ability to collect student debt and provide quality services to borrowers once they are out of school would likely be hampered, due to possible cuts in contracts with the private-sector entities that service Federal student loans. To underscore the magnitude of the risk in this area, during the 2011-2012 award year the Department delivered or supported the delivery of approximately \$172 billion in grant, work-study, and loan assistance to almost 15 million postsecondary students attending more than 6,000 postsecondary institutions.

The sequester would also likely require the Department to furlough many of its own employees for multiple days. This would significantly harm the Department's ability to prevent fraud, waste, and abuse in these very large, complex student financial assistance programs. Furloughing employees would also hurt all the Department's other activities, including making grant awards on a timely basis.

I hope this information has given you a clear idea of the threat to America's education system posed by sequestration. I hope that you and other Members of Congress will work to avoid sequestration, and I stand ready to help in any way I can.

Thank you for your continuing support of our nation's education programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Arne Duncan", written over a horizontal line.

Arne Duncan